

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 INT-08 SCEM-02 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07

H-03 L-03 NSC-10 PA-03 PRS-01 SS-15 USIA-15 RSR-01

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R 230959Z JUL 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6779

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E.O. 11652: N/A

TAGS: ENRG, EIND, RP

SUBJECT: OIL PRODUCT PRICES

REF: A) STATE 135092; B) MANILA 820; C) MANILA 874

BEGIN SUMMARY: REPRESENTATIVES OF ESSO, MOBIL AND CALTEX DISCUSSED COMPANIES' PRICING PROBLEMS IN PHILIPPINES WITH EMBOFFS JULY 17. OUTCOME WAS AGREEMENT THAT EMBASSY ACTION AT THIS TIME COULD BE PREMATURE AND POSSIBLY PREJUDICIAL TO COMPANIES' INTERESTS. COMPANIES FEEL THAT OIL INDUSTRY COMMISSION IS CLOSELY DIRECTED BY PRESIDENT MARCOS ON PRICE MATTERS AND THAT PROVISIONAL RELIEF WILL NOT COME BEFORE JULY 27 REFERENDUM, WITH FINAL ACTION ON THEIR PETITION FOR PRICE INCREASES NOT EXPECTED BEFORE END OF 1973. THEY ARE NOT OPTIMISTIC THAT DECISIONS LIKELY TO BE TAKEN IN NEAR FUTURE WILL PROVIDE NEEDED LONG-TERM SOLUTION TO PRICE QUESTION. END SUMMARY.

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QM PURSUANT TO REQUEST (REF A) FOR FURTHER INFORMATION

CONCERNING CONTINUING STRUGGLE BY OIL COMPANIES TO OBTAIN GOP APPROVAL FOR PRICE INCREASES ON PETROLEUM PRODUCTS, ECONOMIC/COMMERCIAL COUNSELOR INVITED REPRESENTATIVES OF AMERICAN OIL COMPANIES IN PHILIPPINES TO JULY 17 MEETING TO DISCUSS OVERALL SITUATION AND PRESENT STATE OF AFFAIRS. AMERICAN REPRESENTATIVES OF

ESSO, CALTEX, AND MOBIL ATTENDED. GETTY, WHICH DOES NOT HAVE EXPATRIATE MANAGEMENT, WAS INVITED AND ACCEPTED BUT DID NOT SHOW. DISCUSSION WAS FRANK AND FRUITFUL ALTHOUGH MOBIL REP SEEMED SURPRISED THAT APPROACH HAD BEEN MADE TO DEPARTMENT.

2. ESSENTIALS OF PROBLEMS AS DESCRIBED BY OIL COMPANIES ARE: A) IN ORDER TO CATCH UP WITH EXTERNAL COST INCREASES SINCE JANUARY 1973 (ESTIMATED BY COMPANIES TO BE 80 CENTS PER BARREL) COMPANIES NEED IMMEDIATE PRICE INCREASE AVERAGING 4-5 CENTAVOS PER LITER; B) FOR LONG-TERM COMPANIES SEEK REASONABLE RETURN IN ORDER TO GET ON RATIONAL LOCAL ECONOMIC FOOTING. (THIS WOULD INVOLVE, COMPANIES INDICATE, AVERAGE PRICE INCREASE OF ADDITIONAL 4 CENTAVOS BEYOND INCREASES PRESENTLY BEING ASKED, WHICH COMPANIES CLAIM ARE STRICTLY COST RELATED). THESE INCREASES REPRESENT 20-25 PERCENT ON GASOLINE AND WHITE PRODUCTS AND HIGHER ON OTHERS.

3. COMPANIES ACKNOWLEDGE THAT FOR TACTICAL PURPOSES THEY HAVE APPROACHED PROBLEM PIECEMEAL. IN ORDER TO BREAK EVEN, COMPANIES HAVE INITIALLY SOUGHT PRICE INCREASES THAT WOULD MATCH RISING DOCUMENTABLE COSTS AND HAVE NOT PURSUED AS A GROUP THE MORE CONTROVERSIAL ISSUE OF AVERAGE RATE OF RETURN. THIS APPROACH HAS NOT PREVENTED INTERTWINING OF ISSUES, HOWEVER, TO EXTENT THAT, NOW, OIC HEARINGS HAVE TAKEN UP PROPER BASIS FOR DETERMINING REASONABLE RATE OF RETURN ALONG WITH CONSIDERATION OF COMPANIES' ACCOUNTING PRACTICES. COMPANIES COMPLAIN PART OF CONFUSION IS DUE TO OIC LACK OF KNOWLEDGE OF PETROLEUM INDUSTRY.

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RM COMPANIES HOPED DECREE 102, PLACING OIC UNDER NEDA (REF B), AND MAGSALAT LAW ENVIRONMENT WOULD ENABLE MARCOS ADMINISTRATION TO DEAL MORE EXPEDITIOUSLY WITH OIL PRICING PROBLEMS, BUT FIND THAT POLITICAL IMPACT OF SUCH ECONOMIC DECISIONS IS STILL A CONTROLLING FACTOR IN GOVERNMENT DECISION-MAKING.

5. COMPANIES EXPRESS CONVICTION THAT ALL MOVES BY

OIC ARE BEING DICTATED BY PRESIDENT MARCOS AND THAT HE NOT WILLING TO GIVE SIGNAL FOR PRICE INCREASES BECAUSE OF POSSIBLE ADVERSE EFFECT ON PUBLIC SUPPORT FOR ADMINISTRATION. ON OTHER HAND, THEY RECONGNIZE THAT MANY PREYSING ISSUES ARE CONTENDING FOR PRESIDENT'S ATTENTION. EXAMPLE OF POLITICAL PLAY AT PRESENT IS RECENT GOP EFFORT TO GET COMPANIES TO ARRANGE SUPPLIES OF CRUDE FOR FILOIL REFINERY, OF WHICH GOP RECENTLY ACQUIRED MAGORITY CONTROL (SEPTTEL). GOP OFFICIALS HAVE INTIMATED THAT AGREEMENT TO SUPPLY FILOIL COULD BE HELPFUL IN GETTING FAVORABLE ACTION ON PETITIONS.

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6. OIL COMPANIES FEEL THAT THEIR ABILITY TO TAKE ACTION WHICH WOULD PERSUADE GOP OF SERIOUSNESS OF FINANCIAL PROBLEM IS CONSTRAINED BY CONSIDERATIONS OTHER THAN PRICES. CALTEX PRESENTLY HAS PETITION BEFORE OIC TO ALLOW EXPANSION OF REFINERY FACILITIES AND WILL BEGIN OIL EXPLORATION IN SEPTEMBER THIS YEAR. (CALTEX, IT WILL BE RECALLED, WAS THE FIRST FIRM TO SIGN EXPLORATION CONTRACT UNDER NEW LAW). TO THEM EXPANSION IS MORE IMPORTANT AT PRESENT THAN PRICES, SO COMPANY RELUCTANT TO TAKE ANY ACTION IN RELATION TO

PRICES THAT WOULD PUT THEM AT DISADVANTAGE IN OTHER AREAS. OTHERS FACE SIMILAR PROBLEMS, SINCE ALL ACTIVITIES OF AOIL INDUSTRY EXCEPT EXPLORATION AND CRUDE PRODUCTION ARE WITHIN PURVIEW OF OIC. HOWEVER, SINCE PRICE PROBLEM HAS LASTED TWO YEARS AND NO SOLUTION FORESEEABLE COMPANIES DO NOT DISCOUNT POSSIBILITY OF HEAD OFFICES ACTING ADVERSELY TO LOCAL NEEDS. ACTION ALL AGREED MOST LIKELY WOULD BE TO LIMIT CRUDE SUPPLIES ON GROUNDS THAT PARENTS CAN NO LONGER SUBSIDIZE UNPROFITABLE AFFILIATES AT EXPENSE OF CUSTOMERS WILLING TO PAY HIGHER CRUDE PRICES. LIMITED OFFICIAL USE

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LOCALS REALIZE SUCH ACTION WOULD UNDOUBTEDLY PRECIPITATE CONFRONTATION THAT NOBODY WOULD WIN, BUT, AT SAME TIME, FEEL THAT THEIR ENDEAVOR TO EDUCATE GOP ABOUT PRESENT WORLD PETROLEUM SITUATION HAS NOT YET SUCCEEDED.

7. SITUATION FURTHER COMPLICATED FOR COMPANIES AND GOP BY FACT THAT OIC PRESENTLY HEARING TWO OTHER PETITIONS SUBMITTED BY GROUPS AFFECTED BY PRICES OF PETROLEUM PRODUCTS. ON ONE HAND, BULK USERS SUCH AS TRANSPORTATION COMPANIES AND SHIPPING LINES HAVE PETITIONED TO HAVE DISCOUNTS GRANTED THEM BY COMPANIES PRIOR TO JANUARY 1973 RESTORED; AS PART OF DECEMBER 1972 DECISION OIC PERMITTED COMPANIES TO WITHDRAW DISCOUNTS (REF C). ON OTHER HAND GASOLINE DEALERS ARE ASKING TWELVE PERCENT PUMP PRICE INCREASE TO RESTORE THEIR PROFIT MARGINS WHICH SHRANK WITH LAST DECEMBER PRICE ADJUSTMENTS.

8. COMPANIES, WHEN ASKED, EXPRESSED OPINION THAT EMBASSY INITIATIVES, NOW, WOULD NOT BE HELPFUL AND MIGHT BE HARMFUL TO BOTH. THEY WISH THEIR PROBLEM TO REMAIN INDEPENDENT FROM INTERGOVERNMENT ISSUES. THEY FEEL THAT NO END WOULD BE SERVED BY HAVING OIL INDUSTRY PROBLEMS ENTANGLED IN PACKAGE WITH ITEMS NOW SUBJECT TO BILATERAL NEGOTIATIONS.

9. AS FAR AS RELIEF IN IMMEDIATE FUTURE, OIC CHAIRMAN MATHAY TOLD EMBOFF THAT AFTER JULY 27 OIC MAY GRANT PROVISIONAL INCREASE (APPROX 0.7 CENTAVOS) TO OIL COMPANIES BASED ON JANUARY INCREASE IN PHILIPPINE IMPORT DUTY FOR CRUDE AND WHARFAGE FEES. COMPANIES CLAIM PRESIDENT MARCOS PROMISED THIS "WITHIN THIRTY DAYS" AT TIME OF LAST INCREASE. IT IS ALSO POSSIBLE THAT OIC WILL ACT ON GASOLINE DEALERS PETITION ABOUT SEPTEMBER 15. THIS WOULD ENABLE COMPANIES TO REDUCE OR ELIMINATE DISCOUNTS TO DEALERS OF UP TO 3 CENTAVOS PER LITER. BUT FINAL OIC ACTION ON PENDING INDUSTRY

PETITIONS FOR INCREASES ON ALL PRODUCTS SEEMS MORE
REMOTE. COMPANIES SPECULATE THAT THEY DO NOT SEE ACTION
BEFORE END OF 73. EVEN THEN WHATEVER INCREASE GRANTED LIKELY
BE FOR ONLY THOSE COST INCREASES THAT HAVE TAKEN
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PLACE UP TO END OF HEARINGS (PETITIONS MAY BE AMENDED
BY DIRECT TESTIMONY BEFORE OIC).

10. COMMENT: WHILE THERE MAY BE SOME HOPE THAT PROBLEMS
GOP HAS TAKEN ON WITH ACQUISITION OF FILOIL WILL BE
EDUCATIVE TO EXTENT THAT GOVT WILL RECOGNIZE
PROBLEMS OF THE OIL INDUSTRY AS WHOLE, IT SEEMS THAT
TIME IS RUNNING DOWN TO POINT AT WHICH COMPANIES MAY
SEE NO ALTERNATIVE TO ACTION SUCH AS LIMITING CRUDE
DELIVERIES IF WORLD CRUDE SUPPLY AND PRICE SITUATION
REMAINS TIGHT. EMBASSY WILL CONTINUE TO WATCH
SITUATION CLOSELY AND REPORT DEVELOPMENTS.
HAMILTON

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